

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|----------------------------------|---|----------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name Lakefield Township | County Luce |
| Fiscal Year End June 30, 2006 | Opinion Date October 13, 2006 | Date Audit Report Submitted to State December 13, 2006 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

☒ ☐ **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|---|-------------------------------------|--|------------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC | | Telephone Number 906-495-5952 | |
| Street Address 16978 S. Riley Avenue | | City Kincheloe | State MI |
| | | Zip 49788 | |
| Authorizing CPA Signature <i>Kenneth A. Talsma</i> | Printed Name Kenneth A. Talsma | | License Number 1101024989 |

LAKEFIELD TOWNSHIP

BASIC FINANCIAL STATEMENTS

June 30, 2006

LAKEFIELD TOWNSHIP

ELECTED OFFICIALS

TOWNSHIP SUPERVISOR

RICHARD BROW

TOWNSHIP TREASURER

AMY WHEELER

TOWNSHIP CLERK

TIM TEED

TOWNSHIP TRUSTEE

MICHAEL FRENCH

TOWNSHIP TRUSTEE

RICHARD PLESSCHER

TABLE OF CONTENTS

| | <u>Page</u> |
|--|--------------------|
| INDEPENDENT AUDITOR’S REPORT | 1 |
| MANAGEMENT’S DISCUSSION AND ANALYSIS | 2 |
| BASIC FINANCIAL STATEMENTS: | |
| Government-Wide Financial Statements: | |
| Statement of Net Assets | 6 |
| Statement of Activities | 7 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds | 8 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds | 9 |
| Reconciliation of Governmental Funds: | |
| Statement of Revenues, Expenditures, and Changes in in Fund Balances to the Statement of Activities | 10 |
| Fiduciary Funds: | |
| Statement of Fiduciary Net Assets | 11 |
| NOTES TO FINANCIAL STATEMENTS | 12 |
| REQUIRED SUPPLEMENTAL INFORMATION: | |
| Major Funds: | |
| Budgetary Comparison Schedule – General Fund | 20 |



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL
DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Board of Trustees of
Lakefield Township, Michigan

We have audited the accompanying financial statements of the governmental activities, major fund, and the aggregate remaining fund information of Lakefield Township, Michigan as of and for the year ended June 30, 2006, which collectively comprises the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lakefield Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major fund, and the aggregate remaining fund information of Lakefield Township, Michigan as of June 30, 2006, and the respective changes in financial position, for the year ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as listed in table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Anderson Tackman & Co. PLLC

Anderson, Tackman & Company, PLC
Certified Public Accountants

October 13, 2006

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

The Township as a Whole

The Township's combined net assets increased 7.5% from a year ago increasing from \$432,795 to \$465,391.

A comparative analysis will not be performed in future years because Townships with a population less than 4,000 people are required to be audited every other year.

In a condensed format, the table below shows the net assets of Lakefield Township.

| | <u>Governmental Activities 2006</u> |
|----------------------------|---|
| Assets | |
| Current Assets | \$ 407,958 |
| Noncurrent Assets | <u>58,875</u> |
| Total Assets | <u>\$ 466,833</u> |
| Liabilities | |
| Accrued Liabilities | <u>\$ 1,442</u> |
| Net Assets | |
| Invested in Capital Assets | 58,875 |
| Unrestricted | <u>406,516</u> |
| Total Net Assets | <u>\$ 465,391</u> |

The current level of unrestricted net assets for our governmental activities stands at \$406,516, or about 324% of expenses. This is within the targeted range set by the Township Board of Trustees during its last budget process.

The following table shows the activities of the Township.

| | <u>Governmental Activities 2006</u> |
|----------------------------|---|
| Program Revenues | |
| Charges for Services | \$ 21,339 |
| General Revenues | |
| Taxes | 53,208 |
| State Revenue Sharing | 73,408 |
| Investment Earnings (Loss) | <u>10,238</u> |
| Total Revenues | <u>158,193</u> |
| Program Expenses | |
| Legislative | 8,474 |
| General Government | 68,733 |
| Public Safety | 11,500 |
| Health and Welfare | 875 |
| Public Works | <u>36,015</u> |
| Total Expenses | <u>125,597</u> |
| Changes in Net Assets | 32,596 |
| Net Assets – Beginning | <u>432,795</u> |
| Net Assets – Ending | <u><u>\$ 465,391</u></u> |

Governmental Activities

The Township's total governmental revenues increased by approximately \$18,585, primarily due to the continuing increase in property tax values and an increase in charges for services collected.

Expenses, excluding depreciation, increased by about \$26,008 during the year. The largest increase was from road and bridge maintenance expenditures. Depreciation expense remained consistent between fiscal years 2005 and 2006 at \$875.

The Township's Funds

Our analysis of the Township's major funds begins on page 8, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major fund for 2006 is the General Fund.

The General Fund pays for most of the Township's governmental services. The most significant are General Government, Public Works, and Public Safety, which incurred expenses of approximately \$116,248 in 2006. These services are largely supported by taxes, which are recorded in the General fund. The remaining costs of General Government, Public Works, and Public Safety are funded by other general revenue sources of the General Fund such as revenue sharing and charges for services.

General Fund Budgetary Highlights

Over the course of the year, the Township Board amended the budget to take into account events during the year. Revenues were \$36,893 above budget. Most of the overage came from revenue sharing in the amount of \$18,408. Township departments overall stayed below budget, resulting in total expenditures \$142,528 below budget. This allowed the General Fund's fund balance to increase from \$373,045 a year ago to \$406,516 at June 30, 2006.

Capital Asset and Debt Administration

At the end of 2006, the Township had \$58,875 invested in a broad range of capital assets, including buildings, ambulance, and fire equipment. In addition, the Township has invested significantly in roads within the Township. These assets are not reported in the Township's financial statements because of Michigan law, which makes these roads the property of the Luce County Road Commission (along with the responsibility to maintain them).

Economic Factors and Next Year's Budgets and Rates

The Township's budget for 2006 calls for a freeze on property tax rates. This can be accomplished because of the growth in our tax base. Because of the impact of Proposal A, however, the Township needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions. Also, reductions in State Revenue sharing continues to hurt the township.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Supervisor's office at: PO Box 99, McMillan, Michigan 49853.

Basic Financial Statements

**Statement of Net Assets
June 30, 2006**

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| ASSETS: | |
| Current Assets | |
| Cash | \$ 397,004 |
| Due from State | <u>10,954</u> |
| Total current assets | <u>407,958</u> |
| Noncurrent Assets | |
| Capital Assets (Not Depreciated) | 30,000 |
| Capital Assets (Net of Accumulated Depreciation) | <u>28,875</u> |
| Total noncurrent assets | <u>58,875</u> |
| TOTAL ASSETS | <u><u>\$ 466,833</u></u> |
| LIABILITIES: | |
| Accrued Liabilities | <u>\$ 1,442</u> |
| NET ASSETS: | |
| Invested in Capital Assets | 58,875 |
| Unrestricted | <u>406,516</u> |
| TOTAL NET ASSETS | <u><u>\$ 465,391</u></u> |

Lakefield Township, Michigan

Statement of Activities For the Year Ended June 30, 2006

| Functions/Programs | Expenses | Program Revenues | | Governmental |
|---------------------------------|----------|------------------|--|----------------|
| | | Charges for | | Activities |
| | | Services | | Net (Expense) |
| | | | | Revenue and |
| | | | | Changes in Net |
| | | | | Assets |
| Governmental Activities: | | | | |
| Legislative | \$ 8,474 | \$ - | | \$ (8,474) |
| General Government | 68,733 | 21,339 | | (47,394) |
| Public Safety | 11,500 | - | | (11,500) |
| Health and Welfare | 875 | - | | (875) |
| Public Works | 36,015 | - | | (36,015) |
| Total Governmental Activities | 125,597 | 21,339 | | (104,258) |
| General Revenues: | | | | |
| Taxes | | | | 53,208 |
| State Revenue Sharing | | | | 73,408 |
| Investment Earnings (Loss) | | | | 10,238 |
| Total General Revenues | | | | 136,854 |
| Changes in Net Assets | | | | 32,596 |
| Net Assets - Beginning | | | | 432,795 |
| Net Assets - Ending | | | | \$ 465,391 |

Lakefield Township, Michigan

Balance Sheet Governmental Funds June 30, 2006

| | General |
|---|-------------------|
| ASSETS: | |
| Cash | \$ 397,004 |
| Due from State | 10,954 |
| TOTAL ASSETS | \$ 407,958 |
| LIABILITIES: | |
| Accrued Liabilities | \$ 1,442 |
| FUND BALANCES: | |
| Unreserved | 406,516 |
| TOTAL LIABILITIES AND FUND BALANCES | 407,958 |
| Reconciliation to amounts reported for governmental activities in the statement of net assets: | |
| Capital assets used by governmental activities | 58,875 |
| Net assets of governmental activities | \$ 465,391 |

Lakefield Township, Michigan

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended June 30, 2006

| | <u>General</u> |
|---|------------------------------|
| REVENUES: | |
| Taxes | \$ 53,208 |
| State Sources | 73,408 |
| Charges for Services | 21,119 |
| Interest & Rentals | 10,238 |
| Other Revenue | <u>220</u> |
| TOTAL REVENUES | <u>158,193</u> |
| EXPENDITURES: | |
| Legislative | 8,474 |
| General Government | 68,733 |
| Public Safety | 11,500 |
| Public Works | <u>36,015</u> |
| TOTAL EXPENDITURES | <u>124,722</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 33,471 |
| FUND BALANCES, JULY 1 | <u>373,045</u> |
| FUND BALANCES, JUNE 30 | <u><u>\$ 406,516</u></u> |

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2006**

Net Changes in fund balances – total governmental funds \$ 33,471

The change in net assets reported for governmental activities in the
Statement of Activities is different because:

Governmental funds reported capital outlays as expenditures.
However, in the statement of activities, the cost of those assets
is capitalized and the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense.
This is the amount by which depreciation expense, (\$875) exceeded
capital outlay (\$0). (875)

Changes in net assets of governmental funds \$ 32,596

Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2006

| | Agency Fund |
|---------------------------|----------------|
| <u>ASSETS</u> | |
| Cash and cash equivalents | \$ 67 |
| TOTAL ASSETS | <u>\$ 67</u> |
| <u>LIABILITIES</u> | |
| Due to other governments | \$ 67 |
| TOTAL LIABILITIES | <u>\$ 67</u> |

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Lakefield Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the Township:

A – Reporting Entity

Lakefield Township ("The Township") is a regular law Michigan township located in the eastern portion of Michigan's Upper Peninsula.

The Township operates under an elected Board of Trustees and provides services to its residents in many areas including fire protection, community enrichment and development and health services.

The Township, for financial purposes, includes all of the activities relevant to the operations of Lakefield Township. The financial statements herein do not include agencies which have been formed under applicable State laws or separate and distinct units of government apart from Lakefield Township.

B – Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**C – Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of account, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable – Current or Property Taxes

The Lakefield Township property tax is levied on each December 1st on the taxable valuation of property (as defined by State statutes) located in the Lakefield Township as of the preceding December 31st.

Although the Lakefield Township 2005 ad valorem tax is levied and collectible on December, 2006, it is the Lakefield Township's policy to recognize revenue from the current tax levy in the subsequent year or the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2005 taxable valuation of the Lakefield Township totaled \$39,779,950, on which ad valorem taxes levied consisted of .9556 mills for the Township operating, \$38,014. This amount is recognized in the General Fund financial statements tax revenue.

The Township reports the following major governmental fund:

General Fund

This is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Additionally, the Township reports the following fund types:

Agency Funds

Agency Funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The tax collection fund is the Township's only Agency Fund.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D - Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds and is allocated to each fund based on average cash balance. Deposits are recorded at cost.

Receivables – All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items – All inventories, including the cost of supplies, are expensed when purchased. Expenditures for insurance and similar services are expensed when paid.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets – Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

| | |
|-----------------------|----------------|
| Buildings | 40 to 60 years |
| Building Improvements | 15 to 30 years |

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Deferred Revenues – Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not.

Grants and Other Intergovernmental Revenues – Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the representative grants.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each June, after receiving input from the individual departments, the Township Board prepares a proposed operating budget for the fiscal period commencing July 1 and lapses on June 30. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

- c. Prior to July 1, the budget is legally enacted through a resolution passed by the Township Board.
- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Township Board. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The Township does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Township Board during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 493 of 2000 requires that budgets be adopted for General and Special Revenue Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level. The Township was in compliance with statutory provisions of the Act.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

| | <u>Governmental Activities</u> | <u>Fiduciary Funds</u> |
|---|------------------------------------|----------------------------|
| Cash and Cash Equivalents - Unrestricted | \$ 397,004 | \$ 67 |
| Total | <u>\$ 397,004</u> | <u>\$ 67</u> |

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Deposits and investment components are as follows:

| | <u>Primary Government</u> | <u>Fiduciary Funds</u> |
|---|-------------------------------|----------------------------|
| Bank Deposits (checking and savings accounts, certificates of deposit) | \$ 397,004 | \$ 67 |
| Total | <u>\$ 397,004</u> | <u>\$ 67</u> |

Investment and Deposit Risk

Interest Rate Risk. Through its investment policy, the Township manages its exposure risk to fair value losses arising from increasing interest rates by limiting the duration of its investment portfolio to one year or less.

Credit Risk. The Township's policy limits investments in bonds, bills, or notes of the United States; certificates of deposits; commercial paper rated prime 1 or prime 2, maturing 270 days or less.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year end, \$92,503 of the Township's bank balance of \$393,502 was exposed to credit risk because it was uninsured and uncollateralized.

Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the Township to deposit and invest in one or more of the following:

- a. Bond, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Banker's acceptance of United States banks.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The Township's deposits and investment policy are in accordance with statutory authority.

These deposits are in various financial institutions in varying amounts. All accounts are in the name of the Township and specific funds. They are recorded in Township records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

NOTE 4 - RECEIVABLES

Receivables as of year end for the government's individual major and nonmajor funds, are as follows:

| | |
|-----------------|-------------------------|
| | <u>General Fund</u> |
| Receivables: | |
| Due From State | \$ <u>10,954</u> |
| Net Receivables | \$ <u><u>10,954</u></u> |

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balances</u> |
|--|-------------------------------|------------------|------------------|----------------------------|
| Governmental Activities: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ <u>30,000</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>30,000</u> |
| Subtotal | <u>30,000</u> | <u>-</u> | <u>-</u> | <u>30,000</u> |

NOTE 5 - CAPITAL ASSETS (Continued)

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balances</u> |
|---|-------------------------------|------------------|------------------|----------------------------|
| Governmental Activities: | | | | |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings | <u>215,000</u> | <u>-</u> | <u>-</u> | <u>215,000</u> |
| Subtotal | <u>215,000</u> | <u>-</u> | <u>-</u> | <u>215,000</u> |
| <i>Less accumulated depreciation for:</i> | | | | |
| Buildings | <u>(185,250)</u> | <u>(875)</u> | <u>-</u> | <u>(186,125)</u> |
| Subtotal | <u>(185,250)</u> | <u>(875)</u> | <u>-</u> | <u>(186,125)</u> |
| Net Capital Assets Being Depreciated | <u>29,750</u> | <u>(875)</u> | <u>-</u> | <u>28,875</u> |
| Capital Assets - Net of Depreciation | <u>\$ 59,750</u> | <u>\$ (875)</u> | <u>\$ -</u> | <u>\$ 58,875</u> |

Depreciation expense was charged entirely to the activity of Health and Welfare.

NOTE 6 - RISK MANAGEMENT

Risk Management – The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Township joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The township pays an annual premium to the pool for its general insurance coverage.

The Township continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Township is unable to provide an estimate of the amounts of additional assessments.

Required Supplemental Information

Lakefield Township, Michigan

Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended June 30, 2006

| | Original Budget | Amended Budget | Actual | Variance- Favorable (Unfavorable) |
|--------------------------------------|--------------------|-------------------|------------|---|
| REVENUES: | | | | |
| Taxes | \$ 46,100 | \$ 46,100 | \$ 53,208 | \$ 7,108 |
| State Sources | 55,000 | 55,000 | 73,408 | 18,408 |
| Charges for Services | 14,700 | 14,700 | 21,119 | 6,419 |
| Interest and Rentals | 5,500 | 5,500 | 10,238 | 4,738 |
| Other Revenue | - | - | 220 | 220 |
| TOTAL REVENUES | 121,300 | 121,300 | 158,193 | 36,893 |
| EXPENDITURES: | | | | |
| LEGISLATIVE | | | | |
| Township Board | 15,000 | 15,000 | 8,474 | 6,526 |
| GENERAL GOVERNMENT | | | | |
| Supervisor | 8,000 | 8,000 | 6,575 | 1,425 |
| Assessor | 18,500 | 18,500 | 18,908 | (408) |
| Clerk | 8,500 | 8,500 | 9,128 | (628) |
| Board of Review | 1,500 | 1,500 | 781 | 719 |
| Elections | 2,500 | 2,500 | 652 | 1,848 |
| Treasurer | 16,250 | 16,250 | 15,119 | 1,131 |
| Cemetery | 7,000 | 7,000 | 6,036 | 964 |
| Buildings and Grounds | 29,000 | 29,000 | 10,534 | 18,466 |
| Other | 4,500 | 4,500 | 1,000 | 3,500 |
| Total General Government | 95,750 | 95,750 | 68,733 | 27,017 |
| PUBLIC SAFETY | | | | |
| Fire Protection | 15,000 | 15,000 | 11,500 | 3,500 |
| HEALTH AND WELFARE | | | | |
| Ambulance | 500 | 500 | - | 500 |
| PUBLIC WORKS | | | | |
| Highways and Streets | 137,000 | 137,000 | 32,210 | 104,790 |
| Sanitation | 4,000 | 4,000 | 3,805 | 195 |
| Total Public Works | 141,000 | 141,000 | 36,015 | 104,985 |
| TOTAL EXPENDITURES | 267,250 | 267,250 | 124,722 | 142,528 |
| EXCESS OF REVENUES OVER EXPENDITURES | \$ (145,950) | \$ (145,950) | 33,471 | \$ 179,421 |
| FUND BALANCE, JULY 1 | | | 373,045 | |
| FUND BALANCE, JUNE 30 | | | \$ 406,516 | |



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Members of the Board of Trustees
Lakefield Township
McMillan, Michigan

We have audited the financial statements of the Lakefield Township, Michigan for the year ended June 30, 2006, and have issued our reports thereon dated October 13, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Lakefield Township, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Township, either individually or in the aggregate, indicate matters that could have a significant effect on the Township's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

Capital Assets (Prior Year)

A policy is needed that specifies a threshold for capitalizing fixed assets. Usually all individual fixed assets over the amount of \$5,000 and a useful life of more than one year are capitalized and placed on the Township's fixed asset inventory listing. We recommend such a policy.

Conflict of Interest Policy (Prior Year)

The Township currently does not have a conflict of interest policy in place. This policy would provide direction/guidance for the Trustees, Elected Officials, and employees relating to events or transactions that either are or could appear to be conflicts of interest.

Personal Property Taxes

Currently, the Township is not recording the amount of outstanding delinquent personal property taxes that are due to the Township in the general ledger. It is recommended the Township record the amount of outstanding delinquent personal property taxes in the general ledger of each fund that has a tax levy. The Township should maintain subsidiary ledgers which show the amount of delinquent personal property taxes owed by each taxpayer by individual tax year.

Conclusion

We would like to express our appreciation, as well as that of our staff, for the excellent cooperation we received while performing the audit. If we can be of assistance in implementing any of the above recommendations, please contact us.

This report is intended solely for the information and use of the Township Board, the cognizant audit agencies and other federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

October 13, 2006